MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
April 17, 2014

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, April 17, 2014, at 3:00 p.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice..

CALL TO ORDER

The meeting was called to order at 3:05 p.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President; Tracy Renfro, Secretary; Jim Strey, Trustee (departed at 4:20 p.m.); Michael White, Trustee (departed at 5:05 p.m.)

ABSENT: Chris Black, City Finance Director

STAFF: Ted Dutkiewicz, Revenue Manager; Judi Yehling, Recording Secretary; Linda Wlaznik, Pension Investment Accountant

GUESTS: Attorney Carolyn Clifford , Ottosen Britz; Jason Martone, Columbia Management; Mike Piotrowski, Marquette Associates; John Masdea, T. Rowe Price; Christopher Chard & Mark Flint, Brandes Investment Partners

I. PUBLIC COMMENT -- None

II. MINUTES

- The March 20, 2014 minutes were presented. Tracy Renfro made a motion to approve the minutes and Jim Strey seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

- The minutes of the March 20, 2014, joint meeting of the Fire and Police Pension Funds were presented. Tracy Renfro made a motion to approve the minutes and Michael White seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

III. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Linda Wlaznik indicated she had received a copy of Barry Fitz's application for a duty disability pension application which she will provide to Attorney Clifford to start the process. Attorney Clifford filled the Board in on the steps needed to process this application. The first step is the "gather the records stage" -- getting a background medical records from the treating physicians and subpoenaing his records from the City and Fire Department, including records of all incident and/or accident reports.

In making a disability determination, the Board will have to obtain an independent medical opinion from three independent doctors pursuant to the Illinois Pension Code, and she will contact the IME physicians. The object is to determine if he is disabled, is it job-related and is it permanent. The next step is to schedule a hearing, and the hearing itself is an open hearing but the Board's deliberations are done in closed session. Attorney Clifford will be in contact with Fitz herself unless he is represented by counsel. The whole process usually takes about six months from start to finish. Attorney Clifford will provide a memo that will outline the process. The goal, she said, is for the Board to stay neutral and open-minded throughout the process.

- Anthony Vitale is due for his first increase on his retirement pension of $214.60/month. His new monthly pension will be $75,263.99 or an annual pension of $63,167.88. Tracy Renfro made a motion, seconded by Jim Strey, to approve the pension increase as stated. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

IV. DISBURSEMENTS

- Michael White made a motion to approve the April payroll of $1,312,433.27. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

- Invoices totaling $28,090.04 were presented as shown in the attached warrant packet. Alan Granite made a motion to approve the invoices as presented in the warrant packet. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

V. CASH & INVESTMENTS

- Mike Piotrowski presented Marquette Associates' Report for March 2014:
  - The first quarter has been very challenging; January the fund was down and February it was up – last week it was down and this week it was up. Marquette thinks that the market is getting to a point where fundamental managers are rewarded. Mike Piotrowski said that the Fund itself has made almost $3 million in investment earnings and the total Fund is at a little over $152 million.
  - The Fund is up 1.7% net of fees for the first quarter compared to the benchmark which was up 1.6% and is still on pace for achieving its actuarial return. Bonds and stocks have done well.
  - Real estate did really well with REITS up 10% and the Fund should get 6-9% out of Principal this year.
  - DFA is up 4.5% for the month, and Mike Piotrowski believes this trend will continue.

- Just as a matter of information, Mike Piotrowski mentioned to the Board that there has been an alert on a change in leadership at the very top at PIMCO but the leadership for this portfolio is still in place and this change shouldn't have a big impact on the Rockford Firefighters' Pension Fund's investment.

- Cash needs for the month are $350,000. The recommendation is to take $200,000 from Vanguard Value Index Fund and $150,000 from Vanguard Institutional Index Fund. Alan Granite made a motion, seconded by Jim Strey, to take $200,000 from Vanguard Value Index Fund and $150,000 from Vanguard Institutional Index Fund to meet cash needs for the month. A roll call vote was taken:

Ayes:	Alan Granite	Michael White
	Tracy Renfro	
Absent:	Chris Black	Jim Strey
Nays:	None	

- Records of purchases and sales were distributed.

  Alan Granite made a motion, seconded by Tracy Renfro, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes:	Alan Granite	Michael White
	Tracy Renfro	
Absent:	Chris Black	Jim Strey
Nays:	None	

- The Board has chosen to interview three international small cap fund managers: Columbia Management, T. Rowe Price and Brandes Investment Partners. Currently on the international side the Fund has Manning-Napier, a large cap manager, and DFA for emerging markets. The three being interviewed will cover the small cap market and includes both value and growth.

- Mike Piotrowski introduced the first group to present, Brandes, which is a value-oriented manager.

  - Christopher Chard and Mark Flint introduced themselves and began by saying that it was pretty uncommon for public funds to look at this asset class but there are definitely return and diversification benefits to be found in this asset class.

  - Brandes is "a value shop" which began in 1974 and is celebrating its 40th anniversary. They have $30 billion under management and 300 employees. They are "crafted for stability" and employee owned with very little turnover.

  - They are about identifying under-valued companies, and they feel the foreign markets are much less efficient than US markets.

  - The chart on page 4 of Brandes' presentation compares growth and value stocks in this space and clearly shows that "value prevails" and almost doubles over time (page 5) versus growth. Price is the "cornerstone" of their whole approach – "price matters."

  - They believe their success rests on a consistent application of an approach that relies on common sense. Their core competency is to value companies and what separates them from the competition is their intense focus on the price they pay for those businesses and willingness to "think long term." They "rely on teamwork and experience."

  - The "team" has a very diverse background with 25 full-time analysts and 15 research analysts. Every investment is vetted and the **team** makes the investment decision – it is a system of checks and balances.

- They estimate the intrinsic business value of a company and like to pay $0.65 if they think it's worth a $1.00 (pg. 8). The asset class itself sees a lot of short-term over reaction to macroeconomic events and Flint cited the sale of two companies' stocks from the portfolio at a significant gain – these were Greek companies whose stock was purchased back in 2010 when Greece was facing "macroeconomic headwinds."
- There are 7,000 companies in the international small-cap universe, and they are able to find a lot of "gems" that others are not focusing on. They avoid purchasing companies that they believe are over-priced.
- Page 10 shows their risk management process. They "zero in" on what's inexpensive and then the team looks at the balance sheet and debt and the economic issues in the country. They aim at building a portfolio with the "highest margin of safety possible," always trading at the $0.65 level for a $1.00 value stock.
- International small cap companies are more mature than their US counterparts, and it's easy to see how the companies will perform over time.
- Page 12 shows the top 10 holdings within the portfolio which makes up almost 30% of the portfolio. The note on the right indicate how financially strong these companies are relative to their debt level.
- Pages 13 and 14 points to their consistency over time in their investment strategy. Page 13 shows they have a six-times overweight to the benchmark in the emerging market and overweight to consumer based companies and they have performed well over time (pg. 14).
- Asked about the sell price, Flint said that they have the sell price in place from the beginning which is based on the perceived intrinsic value. It is constantly being looked at and if they buy so conservatively, they don't go down like the rest of the market.

- Mike Piotrowski introduced the next group to present, T. Rowe Price, which is a larger market cap, growth manager. Portfolio will be much more technology and growth oriented industries. They have had a good performance record as well and will give a different philosophical perspective. We'll be looking to allocate 3.75% or about $7 million.
  - John Masdea introduced himself and started with an overview of T. Rowe. They are based in Baltimore, Maryland, and have been in business for 75 years with $700 billion in assets. They are focused on long-only fixed income and long-only equity. Their employees have an average of 20-23 years of experience, and they have 203 analysts, 130 of whom are equity analysts. They are a publicly held company but employees own 25%, and are paid largely by options and equity. They have over $2 billion on the balance sheet.
  - In the international small cap portfolio, they have $4 billion in assets, and the fund manager has 22 years of experience in the small cap space. They are a "bottoms-up" company utilizing a fundamental approach. They do not take sector bets on countries or types of companies. They have regionally-based managers.
  - Masdea went over the team outlined on pages 7 and 8 of T. Rowe Price's presentation. The seven individuals/analysts on the bottom of page 7 speak 15 languages, and they don't use translators. The portfolio is globally-based with people living in the regions. On page 8, the members shown in red have about 60% of the names in the portfolio. These project managers talk daily and there is a conference call every two weeks.
  - Pages 9 through 12 outline their philosophy. They use the same strategies in all the markets and look for good cash flow businesses. They tend to buy early and hold the stock for three to five

years. The focus is on companies they believe have sustainable growth: companies whose returns are above the cost of capital; they review the companies' management teams and how they are compensated and look for attractive valuations with expected earnings of 10% growth. It is definitely a growth portfolio.

- There are approximately 5,000 names in the universe, and after research and review, they end with about 200-250 names in the portfolio. 85% of the portfolio can be liquidated in five days. The turnover is about 40% and industry average is about double that.
- Page 13 provides the investment parameters. Position size is acceptable up to 5%, but in the last five years, nothing has been greater than 2.5%. Their performance target is to beat the index by 250 basis points.
- Pages 15 through 20 give the portfolio characteristics. There are 211 holdings in the portfolio in 33 markets with a return on equity of 15.4% versus 10.8% for the benchmark. The geographic composition of the fund is similar to the index with the exception of the Americas; the fund has 19.4% in emerging markets compared to 21.4% for the index. They are more overweight in technology and consumer discretionary sectors. The top 20 holdings (pg. 19) account for about 20% of the portfolio.
- Their performance goal of 250 basis points over the benchmark was attained at 1, 3 and 5 years (pg. 22), but they "struggled" a little ore at 10 years. When the focus is on fundamentals, they will perform very well, not so much when the "cyclicals" are doing well.
- In terms of risk versus return, the diagram on page 26 shows they provide greater return for less risk than the benchmark. They have a deep, experienced team – a boutique feel with a global outlook. Their expense ratio is 123 basis points.
- Mike Piotrowski followed up by saying T. Rowe is completely different than Brandes: "It is meant to appeal to the masses." It shows less deviation from the benchmark and 200 holdings versus only 70 for Brandes. T. Rowe is "pushing the edge of a midcap" fund. Brandes is 115 basis points net of fees while T. Rowe is 123. They utilize two different indexes but Marquette's report (pg. 10) has more of an "apples-to-apples" comparison. Yesterday Brandes was up 5.6% and T. Rowe was up 0.84%. Brandes was actually closed for a number of years before and it will probably close again – "they are much more disciplined in terms of maximum capacity." It is a case of large versus small and value versus growth. Typically value managers have less volatile performance but the asset class in general is inherently volatile – there is not a lot of difference in volatility between the two.

- Mike Piotrowski previewed the next presenter by saying that Columbian is very similar to T. Rowe, and summed up the differences between Brandes and T. Rowe. Brandes is "much more concentrated" while T. Rowe is more diversified and goes up further in the cap range. They have completely different styles but both have significant exposure to emerging markets. The fee for Brandes is 115 and for T. Rowe 123; 110 is normally the average for this asset class but it is an expensive asset class. Members stated a preference thus far for Brandes, and Mike Piotrowski said he believed that Brandes complements the Fund's current investments very well but it is so deep value that he believes it would be best to move the DFA deep value portfolio to their emerging markets core portfolio if Brandes is chosen.
- After stating his preference thus far for Brandes, Jim Strey departed at 4:20 p.m.
  - Jason Martone introduced himself, and gave an overview Columbia Management and Acorn Funds. They are owned by Ameriprise Financial but are autonomous and were founded in 1970. All Acorn does is small- to mid-cap global investing and have $40 billion under

management. The entire 28-member investment team (21 analysts and 7 traders) works for Acorn International, all of whom speak multiple languages.

- They hold 250 companies with an average capital of $2.4 million. They buy small companies "and allow them to grow up and get bigger." 22.5% of the companies they hold are in emerging markets. (Pg. 7 of the Columbia Management presentation)
- They are weighted slightly toward Europe (pg. 8) and underweighted to Japan and Australasia compared to the benchmark. In terms of sectors, they are overweight to technology, industrial and health care, and underweight to financials (pg. 9) compared to the benchmark.
- Page 10 shows their top 10 holdings which are 10.8% of their assets, including gaming entities.
- In terms of performance (pg. 11) they are up 1.22% and in the top third in their asset class. They feel their numbers are very good and in line but did admit that the last 18 months has been very difficult for emerging markets but still very good at up 12%.
- In terms of approach and philosophy (pgs. 16–22) the team spends lots of time on the road meeting the company managers, their customers and suppliers to find nontraditional sources of information. They "crunch" the numbers using their own proprietary database which includes over 7,000 companies that goes back years and is updated continually.
- Theirs is a quality/quantity approach. Quality-wise they hold company meetings and determine the "reasons to own the company," and quantitatively they use models and what-if scenarios studying currencies, which they allow to float, and global issues, etc.
- They buy for the long-term and usually hold in excess of five years but they continually review the holdings. No company ever exceeds over 3% of the portfolio. If a company is a takeover target, they allow it to happen if it hits a company price target. As an example, they bought LuLu Lemon at $5/share and took it up to a mid-cap stock at $120/share.
- Summarizing, they are one of the largest funds in this category, and their fee is 86 basis points. Their 1.22% YTD performance puts them in the top third of the category.

- Comments after Columbia left were that they were a "strong" firm," "better than T.Rowe," especially on a risk-adjusted basis. It is also more small- to mid-cap and broader. But Brandes is smaller in terms of number of companies and more active. However, no matter which company is chosen, they will only be 3.75% of the Fund portfolio. Mike Piotrowski commented that they all have a very strong positive Alpha. Brandes seems to have the most potential for great performance but a value tilt. On the international side, currently Manning and Napier is a core to growth fund and DFA is deep value. So choosing Brandes may give the portfolio a too great value tilt according to Mike Piotrowski so we could offset by changing DFA to its core product. Another option would be to split the allocation between two of the managers interviewed; however, he acknowledged that the allocation is so small that it doesn't seem sensible to split it. After further discussion Michael White made a motion, seconded by Tracy Renfro, to retain Brandes as the international small cap manager. A roll call vote was taken:

Ayes:	Alan Granite	Michael White
	Tracy Renfro	
Absent:	Chris Black	Jim Strey
Nays:	None	

- Ted Dutkiewicz passed out the report on the status of the Fund as of March 31, 2014:

- The report showed total current market value of the Fund was $151.92 million, down 0.745% year to date. The equity fund is down 1.459%, and fixed income is up 0.516% at 41.827% of the total Fund.

VI. OLD BUSINESS

- The DOI audit report is in progress.
- Secretary Renfro presented the ballots from the election for a Trustee to fill Alan Granite's position on the Board. Although a quorum was not present to ratify the election, the votes were counted and tallied as follows:

Alan Granite	199	Matt Vipond	1	Trevor O'Keefe	1
Brian Carlson	25	Emil Mosny	1		

- Ted Dutkiewicz advised Board that the representative from Mesirow will be at next month's meeting to discuss the fiduciary liability policy.

VII. CLOSED MEETING – None required.

VIII. NEW BUSINESS

- Attorney Clifford brought before the Board a request for an increase in the Attorney retainer. The proposed increase is $5.00 from $775.00 to $780.00 per month. In reviewing their retainer structure they have removed from the retainer costs for disability hearings and any litigation. Tracy Renfro made a motion, seconded by Michael White, to approve the $5.00 increase in Ottosen-Britz's annual retainer.

Ayes:	Alan Granite	Michael White
	Tracy Renfro	
Absent:	Chris Black	Jim Strey
Nays:	None	

- Attorney Clifford said the discussion of the funding policy could be tabled until next month when Trustee Chris Black will be present.
- Attorney Clifford mentioned that there are some "behind closed door" negotiations on Article 3 and 4 funds. Ted Dutkiewicz added that the "State needs to do something to get its house in order." However, it is both a State **and** municipal problem – it's a global issue.

IX. Training

- Tracy Renfro needs about four more training hours which he can probably complete on Marquette's website by reviewing webinars on investment topics.
- Michael White had provided his certificate for completion of three hours of qualifying training in insurance ethics from CPMI Professional Development, Inc.

X. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 5:20 p.m. Next regular meeting is May 15, 2014, at 3:00 p.m.

Signed:

Tracy Renfro, Secretary

7/17/14

Date

Prepared by:

Judith Yehling

Judith Yehling, Recording Secretary

7-17-14

Date

Approved by the Board of Trustees at its May 15, 2014, meeting.